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USDOE FOR CAROLYN GAY AND RHIA DAVIS

E.O. 12958: N/A

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SUBJECT: Brazil Oil and Gas - Update on Pre-Salt E&P

REF: A) 07 Sao Paulo 899, B) Rio de Janeiro 91, C) Rio de Janeiro 35, D) Rio de Janeiro 138, E) Rio de Janeiro 135, F) Rio de Janeiro 159, G) Brasilia 910, H) Brasilia 1122, I) Rio de Janeiro 235

¶1. This cable is intended to provide an update on exploration and production activity as it relates to pre-salt oil reserves in Brazil. Pre-salt refers to a 500-mile wide "new frontier" area in Brazil, located under a thick layer of salt -- 350 miles off of Brazil's southeastern coast at an average water depth of over 7000 feet. About 25 percent of the pre-salt area has already been contracted to private companies through Brazil's competitive bid round process. Petrobras (Brazil) holds the greatest stake in these blocks; the other international oil companies with pre-salt interests (through consortiums) are Shell, Petrogal, BG Group, Repsol YPF, Exxon Mobil and Hess. The government is currently considering regulatory changes aimed at capturing more revenue and has suspended the licensing of further oil rights in the pre-salt area since late 2006.

First Pre-Salt Well Comes On Line

¶2. On September 2, President Lula was on hand to launch Brazil's pre-salt production as Petrobras officially brought its first pre-salt well on line. The well is located in the Campos Basin's "Jubarte" field off the coast of the state of Espirito Santo. Petrobras has invested USD 30.5 million in the well. Output is expected to reach 18,000 barrels per day. According to Petrobras, data from Jubarte drilling will be used to fine-tune the company's strategy for what it expects to be larger reserves in the Santos basin.

Large Tupi Field Scheduled To Begin Output Next Year

¶3. Meanwhile, initial production at Petrobras' "Tupi" field (BM-S-11) in the Santos basin is scheduled to begin in mid-late 2009. Tupi is considered the largest oil discovery in the Americas since 1976, estimated to hold between 5-8 billion barrels of oil. Initial output is expected at 20,000-30,000 barrels per day, with estimates that pilot production could reach 100,000 barrels per day by 2011. Peak production, not expected until 2026, is planned at one million barrels per day.

How U.S. Companies are Positioned in the Pre-Salt Play

¶4. Exxon Mobil and Hess are the only two U.S. companies with pre-salt stakes, both holding 40 percent interests in the block (BM-S-22) which is currently estimated to be the apex of the largest structure in the pre-salt area. Petrobras has a 20 percent stake in that block. Test well drilling is planned to launch in October

¶2008. Chevron dropped out of an earlier partnership (before oil was discovered in the pre-salt area) for what is now called the "Parati" field (BM-S-10); company representatives have said privately that they seriously regret that decision.

More Data Needed, Probably Not One Giant Field

¶5. Given the extreme depth of the pre-salt reserves and the technical difficulty in drilling through such a thick layer of salt, experts agree that a lot more data is needed to properly assess the area and what will be required to develop it. Petrobras Director for Exploration and Production Guillermo Estrella has said that the company hopes to have a complete evaluation of Brazil's pre-salt reserves by 2010. Initial rumors suggested that the pre-salt area could be one giant field, supported by the evidence that all the test wells drilled in the pre-salt area so far have found oil. Industry insiders, though, say that this 100 percent success rate is absolutely unsustainable. Petrobras has recently updated its assessment, its data suggesting several big areas within the pre-salt area as opposed to one giant field.

¶6. This cable has been coordinated with and cleared by Embassy Brasilia.

MARTINEZ